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FM AMEMBASSY RANGOON
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INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBY/AMEMBASSY CANBERRA 1791
RUEHBJ/AMEMBASSY BEIJING 2196
RUEHKA/AMEMBASSY DHAKA 5122
RUEHNE/AMEMBASSY NEW DELHI 5265
RUEHUL/AMEMBASSY SEOUL 8865
RUEHKO/AMEMBASSY TOKYO 6437
RUEHCN/AMCONSUL CHENGDU 1712
RUEHCHI/AMCONSUL CHIANG MAI 2057
RUEHCI/AMCONSUL KOLKATA 0560
RUEAIIA/CIA WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEHGV/USMISSION GENEVA 4268
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 2259
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000084

SIPDIS

STATE FOR EAP/MLS, INR/EAP
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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [PREL](#) [PINR](#) [BM](#)

SUBJECT: BURMA: EARLY IMPACTS OF WORLD FINANCIAL CRISIS

REF: A. RANGOON 057
[1](#)B. RANGOON 001
[1](#)C. RANGOON 023
[1](#)D. RANGOON 054
[1](#)E. RANGOON 067

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d).

Summary

[1](#)1. (C) Although the Burmese Government claims the world financial crisis is having little to no affect on the country's economy, recent economic trends prove otherwise. Burma's trading sector has been hardest hit, as export earnings from key products including agriculture, garments, and timber have dropped due to lower prices, lack of orders, and the inability of buyers to secure credit. Many trading companies -- key intermediaries in domestic and international commercial transactions -- are struggling to pay their bills, and five have recently been liquidated by the government. Access to credit from both the formal and the much larger informal sector is drying up. Estimates of layoffs vary, but it is clear many Burmese are losing their jobs. The GOB in December formed a task force to monitor the affects of the world financial crisis; however, members confirm GOB officials remain dismissive of a possible severe economic downturn. End Summary.

Commodity Prices Affecting Traders and Producers

[1](#)2. (C) Burmese businessmen, traders, and economists warn

that the slowdown in trade evident during the fourth quarter of 2008 (Ref A) will continue into 2009. Already, farmers and traders are feeling the pinch as commodity prices of goods such as timber, rice, and beans, which have fallen by more than 50 percent since June, continue to drop. Many farmers now find themselves unable to cover production costs, SGS Consultants Managing Director U Kyaw Tin told us. He noted that while the GOB has been encouraging farmers to increase production with the expectation of higher export volumes in 2009 (Ref B), farmers are not only reluctant to plant more but cannot afford to do so. Most farmers take out loans to pay the initial cost of planting, U Kyaw Tin explained. Only after they sell their harvest can they repay their debts and perhaps earn a profit. With Burmese rice currently selling for USD 260/metric ton and beans for less than USD 320/metric ton, both down from a high of USD 750/metric ton in April, farmers are unlikely to earn enough to cover costs, he surmised.

¶3. (C) The drop in commodity prices has already affected trading companies, many of whom were speculating on commodities futures. India and Bangladesh, Burma's two main buyers of beans and pulses, have canceled orders because Burmese traders are setting prices higher than world market rates, trader Anwar Hussain said. Private rice exports are virtually non-existent. U Kyaw Tin confirmed that five traders, who had bought more than USD 200 million worth of beans and pulses when prices were at their highest, were unable to sell their stocks and pay off their debts. The GOB in December expropriated the companies, confiscating all assets to pay off the debts. (Note: There was no media coverage of these developments; agricultural contacts tell us that journalists are forbidden for writing about examples of

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economic ruin. End note.) Other agricultural traders also face possible bankruptcy, Hussain warned. When the Charge raised the issue of speculation in commodities futures with the Minister of National Planning in January (Ref C), the Minister shrugged and said it was a "private sector issue."

Difficulty Securing Access to Credit

¶4. (C) Businesses in many sectors now find it harder to secure access to credit. Although the Minister of Planning told the Charge that the relative isolation of the Burmese financial system protects it from the world credit crunch (Ref B), banker U Than Lwin confirmed that both private and government-owned banks are more hesitant to give loans unless businessmen can prove substantial assets. This is a particular problem since many Burmese businessmen are wealthy on paper but "do not actually have money in the bank (either in Burma or overseas) or assets to speak of," he lamented. Hussain confirmed that many Burmese and foreign companies are unable to secure Letters of Credit, necessary for import/export transactions. Banks, primarily overseas banks used by many Burmese, are more selective when making loans, affecting not only small and medium-sized companies with fewer assets, but also larger firms.

¶5. (C) Those who want to borrow money but lack assets must turn to the informal sector. Economist Winston Set Aung, who tracks the informal sector, told us that businessmen are placing increasingly pressure on informal lenders to make loans, but many are unable to because they lack the necessary liquidity. No hard numbers are available, but an increasing number of borrowers are defaulting on their loans. Consequently, informal lenders have raised interest rates in pursuit of profitability; many currently charge up to 50 percent a month in interest, depending on the borrower's assets. (Note: interest on formal bank loans is 17 percent annually.)

Increasing Un- and Underemployment

¶6. (C) Exile news outlets report that more than 100,000 workers have been fired since October due to the closure of textile factories nationwide. While U Kyaw Win, Secretary of the Garment Manufacturers Association, did not deny the reports, he would only confirm that 10 textile factories in Rangoon closed since November, leaving more than 5,000 people unemployed. Other manufacturing outlets, including three Rangoon-based car factories and Tay Za's timber businesses, have also downsized recently, U Soe Win confirmed. The tourism and retail sectors have also reported falling employment (Ref D), although business owners have yet to determine whether the world financial crisis is to blame.

¶7. (C) Because Burma lacks unemployment insurance, those who lose their jobs must rely on their severance package to survive. In most sectors, severance (if available) totals one month's salary, the average of which is around 45,000 kyat (USD 40). U Soe Win emphasized that underemployment is more rampant than direct unemployment, since many people work in the informal sector or for family-owned small businesses. As business slows, more people will be underutilized and underpaid.

Inflation Down, but Still High

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¶8. (SBU) Since September, inflation has fallen from 40 percent to approximately 25 percent nationwide, according to the UN. (Note: The Central Statistical Office has not published inflation data since July 2007. In December, the GOB informally announced inflation was only three percent for the year.) While prices of basic foodstuffs have fallen along with commodity prices, many Burmese still spend roughly 70 percent of their daily income on food. Salaries also are likely to drop, so more Burmese will find themselves in financial dire straits, U Soe Win predicted. The recent appreciation of the kyat against the U.S. dollar has not benefitted the Burmese, and instead has made it more difficult for many to save, particularly those who earn or save in U.S. dollars (Ref E).

GOB Officials Fail to Acknowledge Any Problems

¶9. (C) The Burmese Government in December formed a task force to monitor the impact of the financial crisis on Burma. Members U Soe Win and U Myint describe the GOB's attitude toward the current situation as "dismissive," highlighting that officials continue "to put their heads in the sand." U Soe Win stated that while the Deputy Director General for Finance recognizes Burma's economic situation was worsening, he was loathe to relay bad news to higher officials. When members of the task force recommended to the Ministers of Finance, Trade, and Economic Planning, that the GOB increase public spending to subsidize farmers and reduce interest rates on loans to make them more affordable, the Planning Minister told them that Burma's lack of relations with "large Western countries" acts as a buffer for the economy. Task force members will continue to make recommendations, but worry that by the time the GOB recognizes the problem, it will be too late to take any action.

Comment

¶10. (SBU) Despite GOB claims to the contrary, the world financial crisis is starting to affect Burma's already downtrodden economy. Key sectors will face substantial losses, and we expect increased unemployment and private sector bankruptcies in 2009. If and when the GOB does acknowledge the impacts of the financial crisis, we suspect it will try to deflect blame, relying on its threadbare argument that U.S. and EU sanctions constrain Burma's

economy. We will continue to monitor economic trends, particularly remittance rates, returns of Burmese workers from abroad, and trade figures, as other key of the global crisis' impact on Burma's economy.

VAJDA